



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 12.2.2004
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Proposal for a

COUNCIL DECISION

on the position to be adopted by the Community within the ACP-EC Council of Ministers regarding the revision of the terms and conditions of financing for short-term fluctuations in export earnings (Annex II of the ACP-EU Partnership Agreement signed in Cotonou)

(presented by the Commission)

EXPLANATORY MEMORANDUM

1. INTRODUCTION

Through the signature of the ACP-EC Partnership Agreement, the Parties recognised that instability of export earnings may adversely affect the development of the ACP States and jeopardise the attainment of their development requirements. A system of additional support in order to mitigate the adverse effects of any instability in export earnings was therefore set up within the financial envelope for support to long-term development in accordance with article 68.1 of the Cotonou Agreement. More precisely, support to mitigate adverse effects of instability in export earnings can be financed under the national allocations to cover unforeseen needs, the so-called B-allocations (Article 3.2 (b) of Annex IV of the Agreement), which is part of the long-term development envelope.

The purpose of support in cases of short-term fluctuations in export earnings is mentioned in article 68.2 of the Agreement: *"...to safeguard macroeconomic and sectoral reforms and policies that are at risk as a result of a drop in revenue and remedy the adverse effects of instability of export earnings ..."*

2. RESULTS

Requests for support from a significant number of ACP States have been analysed according to the eligibility criteria mentioned in article 9 of Annex II of the Agreement. These requests were based on export statistics for years 2000, 2001 and 2002.

TABLE: FLEX-SYSTEM, SUMMARY OF RESULTS (APPLICATION YEARS 2000, 2001 AND 2002)

A) Number of countries which requested support under FLEX (at least one year)	51		68% of ACP countries
B) Number of countries which fulfilled criterion 1: a 10% (2% in the case of least-developed countries) loss of export earnings.	29	7 countries for 3 application years (2000, 2001 and 2002) 8 countries for 2 application years 14 countries for 1 application year	38% of ACP countries
C) Number of countries which fulfilled criterion 1 and 2 (a 10% worsening in the programmed public deficit).	6	1 country for 3 application years 2 countries for 2 application years 3 countries for 1 application year	8% of ACP countries
SOLOMON ISLANDS: (Application years 2000, 2001 and 2002) €7,25 mill GUYANA: (Application years 2000 and 2001) €8,4 mill VANUATU: (Application years 2001 and 2002) €1,7 mill ZAMBIA: (Application year 2000) €11,49 mill BURUNDI: (Application year 2001) €3,18 mill MAURITANIA (Application year 2002) €3,63 mill Total support for FLEX: €35,65 million			

3. REVISION OF THE MECHANISM

This proposal for a Council decision is treated independently from the Communication from the Commission on the revision of the ACP-EC Partnership Agreement because of their different scope and timetable to enter into force.

Article 11 of Annex II of the Cotonou Agreement states that the provisions for financing for short-term fluctuations in export earnings shall be subject to review at the latest after two years of operation and subsequently at the request of either party.

The experience of the first years of application of the new system (2000-2002) shows that relatively few countries were eligible for the new instrument. In order to improve the functioning of FLEX and ensure it responds more adequately to its objectives, the eligibility criteria should be simplified. However, the main principle of the instrument, support for losses in Government revenues as a consequence of a shortfall in export earnings, remains.

Two modifications are proposed:

- (1) The elimination of the benchmark of 10% worsening in the programmed public deficit as defined in Article 9.1 (b) of Annex II;
- (2) The extension to landlocked and island ACP States of the special clause of 2% loss of export earnings in the case of least developed countries of Article 9.1 (a) of the Annex II.

As determined by Article 100 of the Agreement, Annex II may be revised, reviewed and/or amended by the ACP-EC Council of Ministers on the basis of a recommendation from the ACP-EC Development Finance Cooperation Committee. The Commission proposes that the Council adopt the attached decision on the position to be taken by the Community within the ACP-EC Council of Ministers regarding the revision of the terms and conditions of financing for short-term fluctuations in export earnings (article 9 of Annex II of the ACP-EU Partnership Agreement signed in Cotonou)

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 310 in conjunction with the second subparagraph of Article 300(2) thereof,

Having regard to the proposal from the Commission,

Whereas:

- (1) Article 100 of the Partnership Agreement signed in Cotonou on 23 June 2000 states that Annex II, III, IV and VI of the Agreement may be revised, reviewed and/or amended by the ACP-EC Council of Ministers on the basis of a recommendation from the ACP-EC Development Finance Cooperation Committee.
- (2) Article 11 of Chapter 3 of Annex II of the Agreement states that the provisions in the Chapter shall be subject to review at the latest after two years of operation and subsequently at the request of either Party.
- (3) The system of additional support in order to mitigate the adverse effects of any instability in export earnings has been operational for two years. The Community's position within the ACP-EC Council of Ministers should therefore be established regarding the revision of the terms and conditions of financing for short-term fluctuations in export earnings.

HAS DECIDED AS FOLLOWS:

Sole Article

The Community shall take the following position within the ACP-EC Council of Ministers on the revision of the terms and conditions of financing for short-term fluctuations in export earnings, based on the attached draft decision of the ACP-EC Council of Ministers.

Done at Brussels,

*For the Council
The President*

ANNEX

Draft

DECISION OF THE ACP-EC COUNCIL OF MINISTERS

on the revision of the terms and conditions of financing for short-term fluctuations in export earnings (Annex II of the ACP-EU Partnership Agreement signed in Cotonou)

THE ACP-EC COUNCIL OF MINISTERS,

Having regard to the ACP-EC Partnership Agreement signed in Cotonou on 23 June 2000, and in particular, Article 100 thereof,

Whereas:

- (1) The importance of a system of additional support in order to mitigate the adverse effects of any instability in export earnings has been emphasised in the ACP-EC Partnership Agreement signed in Cotonou on 23 June 2000.
- (2) In accordance with Article 11 of Annex II of the ACP-EC Partnership Agreement, the provisions of chapter 3 of this Annex on financing for short-term fluctuations in export earnings shall be subject to review at the latest after two years of operation and subsequently at the request of either Party.
- (3) In order to improve the functioning of the system on financing for short-term fluctuations in export earnings and ensure it responds more adequately to its objectives.

HAS DECIDED AS FOLLOWS:

Article 1

Chapter 3 of Annex II is hereby amended as follows:

Article 9.1 of Annex II shall be replaced by the following:

“Eligibility criteria

1. Eligibility for additional resources shall be established by:

- (a) – a 10% (2% in the case of least-developed, landlocked and island ACP States) loss of export earnings from goods compared with the arithmetical average of the earnings in the first three years of the first four years preceding the application year; or

– a 10% (2% in the case of least-developed, landlocked and island ACP States) loss of export earnings from the total of agricultural or mineral products compared with the arithmetical average of the earnings in the first three years of the first four years preceding the application year for countries where the agricultural or mineral export revenues represent more than 40% of total export revenues from goods; and

(b) a worsening in the programmed public deficit programmed for the year in question or forecast for the following year.”

Article 2

This Decision shall enter into force on the day of its adoption.

Done at

*For the ACP-EC Council of Ministers
The President*